

Message Text

UNCLASSIFIED

PAGE 01 BUENOS 01963 01 OF 02 151842Z

ACTION ARA-10

INFO OCT-01 ISO-00 PA-02 PRS-01 USIA-15 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 FEAE-00
DOTE-00 /068 W

-----151926Z 043720 /53

R 151413Z MAR 77

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 9568

UNCLAS SECTION 1 OF 2 BUENOS AIRES 1963

E.O. 11652: N/A

TAGS: EGEN, EFIN, AR

SUBJECT: MAJOR SPEECH BY MARTINEZ DE HOZ: PRICE FREEZE
ANNOUNCED

1. SUMMARY: IN AN HOUR-AND-A-LONG SPEECH BROADCAST
OVER RADIO AND TELEVISION MARCH 8, MINISTER OF ECONOMY
MARTINEZ DE HOZ REVIEWED ECONOMIC ACCOMPLISHMENTS DURING
THE PAST YEAR, THREATENED TO APPLY INCREASED SANCTIONS FOR
TAX EVASION, AND ANNOUNCED A PRICE FREEZE FOR THE NEXT 120
DAYS. THE REACTION THUS FAR FROM THE BUSINESS COMMUNITY
HAS BEEN NEGATIVE. THE STOCK MARKET, HOWEVER, ROSE SHARPLY,
INTERESTS RATES DECLINED, AND THE SPREAD BETWEEN THE OFFICIAL
EXCHANGE RATE AND THE PARALLEL MARKET NARROWED - RESULTS
INTERPRETED AS REFLECTING PUBLIC EXPECTATIONS THAT MARTINEZ
DE HOZ WILL REMAIN IN THE GOVERNMENT AND THAT THE RATE OF
INFLATION WILL BE REDUCED SUBSTANTIALLY. END SUMMARY.

2. IN THE MARCH 8 SPEECH TO THE NATION, MINISTER OF ECONOMY
MARTINEZ DE HOZ REVIEWED THE SITUATION INHERITED BY THIS
GOVERNMENT IN MARCH '76 AND LISTED THE MAJOR ACCOMPLISH-
MENTS SINCE THAT DATE. THEY INCLUDE: AVOIDING A BALANCE
OF PAYMENTS MORATORIUM; CURBING DRASTICALLY THE INFLATIONARY
PROCESS; AVOIDING MASSIVE UNEMPLOYMENT; STIMULATING THE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BUENOS 01963 01 OF 02 151842Z

ECONOMY AS OF THE SECOND QUARTER OF 1976; A FAVORABLE
RESPONSE FROM THE AGRICULTURAL SECTOR; A RECOVERY OF
INDUSTRIAL PRODUCTION; THE BEGINNING OF REINVESTMENT IN
THE INDUSTRIAL SECTOR; ADOPTION OF A NEW PETROLEUM PLAN;
NEW EXTERNAL CREDITS FOR DEVELOPMENT; THE INITIATION OF
THE RATIONALIZATION OF THE PUBLIC SECTOR; NEW
INVESTMENT AND EQUIPMENT FOR THE COMMUNICATIONS AND RAIL-

ROAD SECTORS; THE INITIATION OF MEASURES TO RETURN STATE ENTERPRISES TO THE PRIVATE SECTOR; SALE OF SHARES IN PRIVATE COMPANIES HELD BY THE BANCO DE DESARROLLO; INCENTIVES FOR THE FISHING INDUSTRY; RESOLUTION OF ALMOST ALL THE INVESTMENT DISPUTES WITH PRIVATE COMPANIES, MOST OF WHICH ARE FOREIGN; PROMULGATION OF THE FOREIGN INVESTMENT LAWS AND REGULATIONS; CLOSER COOPERATION WITH NEIGHBORING COUNTRIES; REVERSAL OF THE NEGATIVE SITUATION IN TRADE AND BALANCE OF PAYMENTS; THE REFORM AND LIBERALIZATION OF THE FOREIGN EXCHANGE SYSTEM WITHOUT SHARPS DISLOCATIONS; THE REORGANIZATION OF THE FINANCIAL SYSTEM; THE REDUCTION OF THE BUDGET DEFICIT.

3. THE MINISTER OF ECONOMY THEN ANNOUNCED MEASURES WHICH APPEARED AS THREAS TO THE BUSINESS COMMUNITY. THESE INCLUDE:

(A) JAIL SENTENCES OF A SEVERITY CONSIDERED ACCEPTABLE IN ARGENTINA FOR INSTANCES OF TAX EVASION. THE MINISTER SAID SPECIFICALLY THAT ONLY 50 PERCENT OF THE VALUE ADDED TAX IS CURRENTLY BEING COLLECTED.

(B) A FREEZE IN PRICES FOR 120 DAYS. THE MINISTER STATED THAT RECENT PRICE INCREASES SEEMED TO REFLECT FUTURE INFLATIONARY EXPECTATIONS RATHER THAN CURRENT COSTS. AS A RESULT, HE HAD DECIDED TO ASK THE BUSINESS COMMUNITY TO ABOSROB THE SALARY INCREASE SCHEDULED FOR MARCH AND TO ROLL BACK PRICES TO THOSE PREVAILING ON FEBRUARY 22. HE ADDED THAT "THIS DOES NOT IMPLY IN ANY WAY THE RE-ESTABLISHMENT OF PRICE

UNCLASSIFIED

PAGE 03 BUENOS 01963 01 OF 02 151842Z

CONTROLS NOR EVEN AN AGREEMENT TO MAINTAIN PRICES. IT IS ONLY A TEMPORARY SUSPENSION OF ALL GENERALIZED INCREASES IN PRICES".

HE ADDED THAT THE STATE ENTERPRISES WOULD ALSO PARTICIPATE IN THE PRICE FREEZE AND FOR THE TIME BEING A GENERAL INCREASE IN FUEL PRICES HAS BEEN POSTPONED. HE SAID THAT MAINTAINING PRICES WOULD INCREASE THE CONSUMPTION CAPACITY OF THE POPULATION AND WOULD THEREFORE ALSO PERMIT A GREATER VOLUME OF SALES. ADDITIONAL BENEFITS, HE CITED, WERE THE DECREASED FINANCIAL COSTS FOR FIRMS AND THE GREATER UTILIZATION OF INSTALLED INDUSTRIAL CAPACITY. THE MINISTER REFERRED TO SOME SECTORS AND FIRMS THAT HAD TAKEN ADVANTAGE OF THE SITUATION AND, ACTING IN A MONOPOLISTIC OR OLIGOPOLISTIC MANNER, HAD MADE UNWARRANTED INCREASES IN PRICES. HE WARNED THAT, IF THESE COMPANIES CONTINUED TO ACT IN THE SAME MANNER, THEY WOULD BE SANCTIONED BY A WIDE SARIES OF MEASURES, INCLUDING TARIFF MEASURES. WITH SPECIFICI REFERENCE TO THE MARKETING OF FRUIT AND VEGETABLES, WHICH HE INDICATED ARE CHARACTERIZED BY AN

OLIGOPOLISTIC STRUCTURE, THE MINISTER SAID THAT REGULATIONS WOULD BE ADOPTED REQUIRING THE OBLIGATORY DELINEATION OF ALL OPERATIONS INCLUDING THE ORIGIN AND DISTRIBUTION OF THE PRODUCTS.

4. ON MARCH 9, THE SECRETARIAT OF COMMERCE PUBLISHED RESOLUTION 189, REQUIRING A ROLLBACK OF PRICES TO THOSE PREVAILING ON FEBRUARY 22 BY SPECIFIC NUMBER OF LEADING FIRMS (APPROXIMATELY 500). THE RESOLUTION STATED THAT THOSE WHO DO NOT ABIDE BY THE PRICE FREEZE WILL BE SUBJECT TO THE FOLLOWING SANCTIONS:

HILL

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BUENOS 01963 02 OF 02 151855Z
ACTION ARA-10

INFO OCT-01 ISO-00 PA-02 PRS-01 USIA-15 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 FEAE-00
DOTE-00 /068 W

-----151926Z 043861 /53

R 151413Z MAR 77
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 9569

UNCLAS SECTION 2 OF 2 BUENOS AIRES 1963

(A) A REDUCTION OF IMPORT DUTIES ON COMPETING PRODUCTS;

(B) LIBERALIZATION OF COMPETING IMPORTS, IF THOSE IMPORTS ARE CURRENTLY RESTRICTED;

(C) THE REDUCTION OF EXPORT SUBSIDIES OR REBATES;

(D) ELIMINATING FROM THE LIST OF QUALIFIED SUPPLIERS FOR THE GOVERNMENT;

(E) PUBLICITY REGARDING THE SANCTION TO INFORM THE CONSUMING PUBLIC.

THE RESOLUTION STATES THAT PRICE INCREASES BY ANY OF THESE FIRMS ARE ONLY AUTHORIZED IN CASES OF EXCEPTIONAL FINANCIAL DIFFICULTIES, AND ONLY THEN TO THE EXTENT OF THE INCREASES OF PRICES OF RAW MATERIALS. THE SECRETARIAT OF COMMERCE ALSO ANNOUNCED ANOTHER MEASURE (INFORMATION BULLETING 54-77) WHICH REQUIRES MANUFACTURERS TO SUGGEST A FINAL SELLING PRICE FOR THE CONSUMER IN ANY TYPES OF ADVISEMENT.

5. THE REACTION OF THE BUSINESS COMMUNITY HAS BEEN GENERALLY NEGATIVE -- AS IS UNDERSTANDABLE FOR ANY MEASURE DEPARTING FROM THE PRINCIPLE OF FREE ENTERPRISE, HOWEVER TEMPORARILY, AND ONE WHICH WOULD TEND TO REDUCE PROFITS (THE CONCEPT OF HIGH VOLUME, LOW PROFIT MARGIN IS NOT ONE GENERALLY ACCEPTED). THE MINISTER'S STATEMENT UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BUENOS 01963 02 OF 02 151855Z

THAT THE MEASURE DOES NOT IMPLY THE REESTABLISHMENT OF PRICE CONTROLS IN VIEWED AS CASUISTIC. IN ADDITION, THERE IS SOME SKEPTICISM THAT THE PRICE FREEZE AT THE PRODUCER LEVEL WILL BE ACCURATELY REFLECTED AT THE RETAIL LEVEL, WHERE MUCH OF THE RECENT PRICE HIKES SEEM TO HAVE LITTLE OR NO RELATION TO CHANGES IN THE WHOLESALE PRICE OF THE PRODUCT BEING SOLD.

6. IN THE FINANCIAL SECTOR AT LEAST, THE MINISTER APPEARS TO HAVE ACHIEVED HIS GOAL OF CURBING THE INFLATIONARY EXPECTATIONS ENGENDERED BY THE RISE IN CONSUMER PRICE INDEX DURING JANUARY AND FEBRUARY. THE STOCK MARKET REACTED POSITIVELY, WITH THE GENERAL INDEX OF STOCK PRICES INCREASING 5.0 PERCENT DURING THE MARCH 8 - 11 PERIOD, MUCH OF THE RISE IN PCIRIS IS ATTRIBUTED TO THE PUBLIC'S CONFIDENCE THAT INFLATION WILL DECLINE IN THE COMING MONTHS AND THAT THEREFORE THE RETURN FROM INVESTMENTS IN TREASURY BILLS AND NATIONAL ADJUSTABLE BONDS WILL BE LESS (THE YIELD FROM THE LATEST ISSUE OF TREASURY BILLS DECLINES AS THE TERM INCREASES AND THE VALUE OF NATIONAL ADJUSTABLE BONDS DROPPED SHARPLY). AT THE SAME TIME, THE SPREAD BETWEEN THE PARALLEL AND FREE MARKET EXCHANGE RATES NARROWED SUBSTANTIALLY, FROM AROUND 11 PERCENT ON MARCH 8 TO 4.7 PERCENT ON MARCH 11. SOME SOURCES ALSO ATTRIBUTE THE POSITIVE REACTION IN THE FINANCIAL MARKETS TO ELIMINATION OF DOUBTS REGARDING THE POSITION OF MINISTER OF ECONOMY MARTINEZ DE HOZ. THE GENERAL IMPRESSIONS IS THAT THE MINISTER COULD HAVE ONLY MADE THE SPEECH WITH THE UNDERSTANDING THAT HE HAD THE FULL SUPPORT OF THE JUNTA. RUMORS ARE STILL CIRCULATING, HOWEVER, THAT THERE STILL MAY BE CHANGES AMONG THE LESS PROMINENT MEMBERS OF THE ECONOMIC TEAM.

HILL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BUENOS01963
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770089-0056
Format: TEL
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770360/aaaacahp.tel
Line Count: 216
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d83bf8b7-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3111065
Secure: OPEN
Status: NATIVE
Subject: MAJOR SPEECH BY MARTINEZ DE HOZ: PRICE FREEZE ANNOUNCED
TAGS: EGEN, EFIN, AR, (MARTINEZ DE HOZ, JOSE ALFREDO)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/d83bf8b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009